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1976 ANNUAL REPORT



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HORNE & PITFIELD FOODS LIMITED

HIGHLIGHTS

	1976	1975
Sales	\$340,592,638	\$291,047,578
Net income	2,668,960	2,586,855
Per share	\$1.36	\$1.32
Working capital	\$ 8,411,872	\$ 8,982,360
Total assets	50,650,978	43,164,733
Shareholders' equity	12,983,380	10,543,383
Per share	\$6.62	\$5.38

REPORT TO SHAREHOLDERS



During our 1975-76 fiscal year we encountered two major problems, rampant inflation in Canada and recession in the United States. Many difficulties resulted from both situations and while operating results improved they were somewhat restrained.

Operating Results:

Consolidated sales for the 53 weeks of operations this year as compared with 52 weeks last year increased \$49,545,060 or 17% to \$340,592,638. Net income also improved slightly to \$2,668,960 resulting in earnings per share of \$1.36 this year as compared with \$1.32 last year.

	Canadian Division	U.S.A. Division	Consolidated
Sales increase	16.8%	17.2%	17.0%
Net income increase (decrease)			
Before foreign exchange	22.1%	(7.9)%	5.0%
After foreign exchange	22.1%	(10.6)%	3.2%

Financial Position:

Cash flow from operations increased 9% to \$3,974,442. However, as a result of substantial expenditures on fixed assets and a net decrease of \$206,240 in long term debt,

working capital decreased \$570,488 to \$8,411,872 as at January 31, 1976 which is deemed adequate for corporate purposes at this time.

Growth and Development:

Our program of growth and development was highlighted this year with the opening of a modern 160,000 square foot distribution centre in Modesto, California by our subsidiary, Market Wholesale Grocery Company. Equipped with the latest materials handling and computer equipment this new facility affords increased opportunity for further growth in this portion of our trading territory. The photographs bordering this report are of this new centre. Market also opened a new Cash & Carry depot at Salinas, California.

In Canada, the total number of independent retailers affiliated with groups sponsored by the company, declined. This was caused by refining and upgrading standards of size and performance of each store with the result that a better image of major company groups will be projected to consumers. A new IGA store was opened in Devon, Alberta and three smaller units were transferred to other voluntary programs. The IGA stores in Drayton Valley and Olds, Alberta were relocated in new Shopping Centres and the Fort Nelson, B.C. store was expanded. Construction commenced on replacement facilities at Chetwynd, B.C. and expansion of the Edson IGA. Leases have been completed for new IGA





Foodmarts in Stony Plain, Alberta and in the 200,000 square foot North Town Mall in Edmonton, Alberta. Six new Red Rooster stores were opened and ten more are planned for the coming year.

Construction commenced on a new Cash & Carry depot in Edmonton to replace older facilities. A 34 acre site of industrial land was purchased adjacent to the outskirts of West Edmonton, Alberta, a portion of which will be utilized for new Corporate offices to be constructed this summer and the balance will be retained for the future needs of our Edmonton Wholesale Division.



Future:

There are positive signs the economy of the United States is again improving but there are also indications that 1976-77 will be a period of intense competition in the State of California. Sales and earnings in Canada will be affected by the levelling off of commodity prices and a continuation of increases in many of our operating expenses. We are also subject to the mandatory controls of the Canadian Government Anti-Inflation program which might cause additional problems due to regulations being vague and difficult to interpret and where, ironically, improved operating costs and efficiencies will be penalized rather than rewarded. All in all we see the coming year as one of uncertainty but nevertheless anticipate increased sales and a modest improvement in earnings.



Appreciation:

The importance of sincere and dedicated employees to the welfare of our company was never more evident than during the past year. Special efforts were required from many and to each we express our sincere gratitude. We also record our appreciation to our many customers and suppliers for their continued good will and co-operation which is also a very necessary part of success.

Annual Meeting:

We cordially invite all shareholders to attend the Annual General Meeting to be held at the Head Office of the Company, Edmonton, Alberta, on Thursday, June 17th, 1976 at 11:00 o'clock in the forenoon.

On behalf of the Board of Directors.

Bertram Leitch
Chairman of the Board.

John J. Duggan
President & Chief Executive Officer.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended January 31, 1976

(with comparative figures for the year ended January 25, 1975)

	1976 (53 weeks)	1975 (52 weeks)
Sales	\$340,592,638	\$291,047,578
Income before the undernoted	7,776,501	7,927,525
Interest on long term debt	919,269	1,004,291
Other interest	127,156	335,319
Depreciation	1,356,441	1,095,105
	2,402,866	2,434,715
Income before taxes	5,373,635	5,492,810
Income taxes - current	2,605,989	2,810,809
- deferred	4,011	4,191
	2,610,000	2,815,000
	2,763,635	2,677,810
Minority interest in earnings of subsidiary	94,675	90,955
Net income	2,668,960	2,586,855
Retained earnings at beginning of year	5,898,004	3,546,211
	8,566,964	6,133,066
Dividends	235,063	235,062
Retained earnings at end of year	\$ 8,331,901	\$ 5,898,004
Earnings per share (Note 1)	\$1.36	\$1.32

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended January 31, 1976

(with comparative figures for the year ended January 25, 1975)

	1976 (53 weeks)	1975 (52 weeks)
Working capital was provided from:		
Operations	\$3,974,442	\$3,647,913
Increase in long term debt	1,611,425	225,717
Deferred accounts receivable	116,346	159,681
Minority interest	—	8,277
Share capital issued	6,100	200
	5,708,313	4,041,788
Working capital was used to:		
Purchase fixed assets	4,219,902	1,209,316
Purchase goodwill	—	45,000
Decrease long term debt	1,817,665	1,265,124
Increase (decrease) other deferred assets	6,171	(8,205)
Pay dividends	235,063	235,062
	6,278,801	2,746,297
Decrease (increase) in working capital	570,488	(1,295,491)
Working capital at beginning of year	8,982,360	7,686,869
Working capital at end of year	\$8,411,872	\$8,982,360

CONSOLIDATED BALANCE SHEET

JANUARY 31, 1976

(with comparative figures as at January 25, 1975)

ASSETS

	January 31, 1976	January 25, 1975
Current:		
Cash	\$ 2,656,318	\$ 2,246,573
Accounts receivable	11,457,987	10,243,103
Note due from a director	291,266	241,356
Inventories of merchandise (Note 1)	20,189,599	17,395,534
Prepaid expenses	558,089	450,958
Land, buildings and equipment held for sale, at the lower of cost and estimated realizable value	565,088	430,428
	35,718,347	31,007,952
Deferred:		
Accounts receivable	577,742	694,088
Other	79,720	73,549
	657,462	767,637
Fixed, at cost (Note 1):		
Land and buildings	7,670,724	5,059,591
Equipment	11,094,879	9,670,495
	18,765,603	14,730,086
Less – Accumulated depreciation	7,620,425	6,470,933
	11,145,178	8,259,153
Goodwill, at cost	3,129,991	3,129,991
	\$50,650,978	\$43,164,733

LIABILITIES

	January 31, 1976	January 25, 1975
Current:		
Bank indebtedness (Note 2)	\$ 3,248,272	\$ 3,971,959
Accounts payable and accrued liabilities	21,517,711	15,253,121
Income taxes payable	543,196	1,491,872
Current portion of long term debt	1,997,296	1,308,640
	27,306,475	22,025,592
Long term debt (Note 3)	8,267,622	8,473,862
Deferred gains on property disposals (Note 1)	395,546	427,967
Deferred income taxes	114,698	110,687
Minority interest , including \$1,548,450 attributed to preferred shares	1,583,257	1,583,242
Shareholders' equity:		
Capital, shares of a par value of 20c each (Note 4)		
	<u>1976</u>	<u>1975</u>
Authorized — 5,000,000	5,000,000	
Issued — 1,961,354	1,958,854	
Premium on share capital	392,271	391,771
Retained earnings	4,259,208	4,253,608
	8,331,901	5,898,004
	12,983,380	10,543,383
Commitments and contingencies (Note 5)		
On behalf of the Board:		
BERTRAM LOEB, Director		
KENNETH W. QUINN, Director		
	\$50,650,978	\$43,164,733

NOTES TO FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES:

Foreign exchange—

The accounts of the California subsidiaries have been translated to Canadian dollars on the following basis:

Current assets and current liabilities at the exchange rate prevailing at January 31, 1976

Other balance sheet items at historical rates of exchange

Income and expenses (other than depreciation expense translated at the rates applicable to related depreciable assets) at the average exchange rate prevailing during the year

The foreign exchange gain of \$4,530 (1975 – \$48,742) arising from this translation has been credited to net income.

Inventories of merchandise—

Wholesale inventories are valued at the lowest of cost, replacement cost and net realizable value. Retail inventories are valued at the lower of cost and net realizable value.

Fixed assets—

Fixed assets are recorded at cost. Depreciation is provided by the straight-line method (except warehouse and automotive equipment in Canada which is depreciated by the diminishing balance method) over the estimated useful lives of the assets which are considered to be:

Buildings	15 - 40 years
Equipment	7 - 10 years

Leasehold improvements are being depreciated over the terms of the related leases. Buildings constructed on leased properties have a net book value of \$527,207.

Where appropriate, maximum depreciation is claimed for income tax purposes and a related provision is made for deferred income taxes.

Goodwill—

Goodwill represents the excess cost of subsidiaries over net book value.

Goodwill arising prior to April 1, 1974 will not be amortized unless there is permanent impairment of value.

Deferred gains on property disposals—

Deferred gains on property disposals are amortized over the terms of the related agreements.

Earnings per share—

Earnings per share are calculated on the weighted average number of shares outstanding during the year. There would be no material dilution of earnings per share if the outstanding stock options referred to in Note 4 had been exercised during the year.

2. BANK INDEBTEDNESS:

The parent Company's bank loan of \$1,713,000 is secured by a floating charge debenture and a general assignment of book debts.

3. LONG TERM DEBT (Canadian funds):

	1976	1975
U.S. 9% promissory notes secured by the shares of Market Management Incorporated and by the guarantee of the Company	\$4,262,522	\$5,051,708
Canadian bank loan secured by a floating charge debenture	1,600,000	2,000,000
U.S. bank loan secured by the shares of Market Wholesale Grocery Co.	1,337,700	399,600
Property mortgages	807,097	591,743
Equipment loans secured by chattel mortgages	218,986	389,494
Other	41,317	41,317
	<u>\$8,267,622</u>	<u>\$8,473,862</u>

Instalments of principal due in the years 1978 to 1981 are \$2,026,763, \$2,334,447, \$1,967,466 and \$1,597,072.

Continued

4. EMPLOYEES STOCK OPTIONS:

Options granted become exercisable at the rate of 20% per year on a cumulative basis commencing one year after the date of grant. Options to purchase 68,200 shares have been exercised to January 31, 1976 including 2,500 during the year. At January 31, 1976 options were outstanding on 23,350 shares at \$2 exercisable up to September 1, 1976.

5. COMMITMENTS AND CONTINGENCIES:

The companies have obligations under long term leases for rentals of warehouses and retail stores aggregating \$2,298,590 per annum of which \$1,278,632 is recoverable from sub-leases to others.

The companies are contingently liable as guarantors of bank loans to customers in the amount of \$175,344.

6. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

The aggregate direct remuneration paid by the Company and its subsidiaries to directors and senior officers was \$452,003.

7. ANTI-INFLATION PROGRAM:

The Company and its Canadian subsidiaries are subject to controls on prices, profits, compensation and dividends instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975. The Company's calculations indicate no excess revenue for the period to January 31, 1976.

AUDITORS' REPORT

To the Shareholders of
Horne & Pitfield Foods Limited:

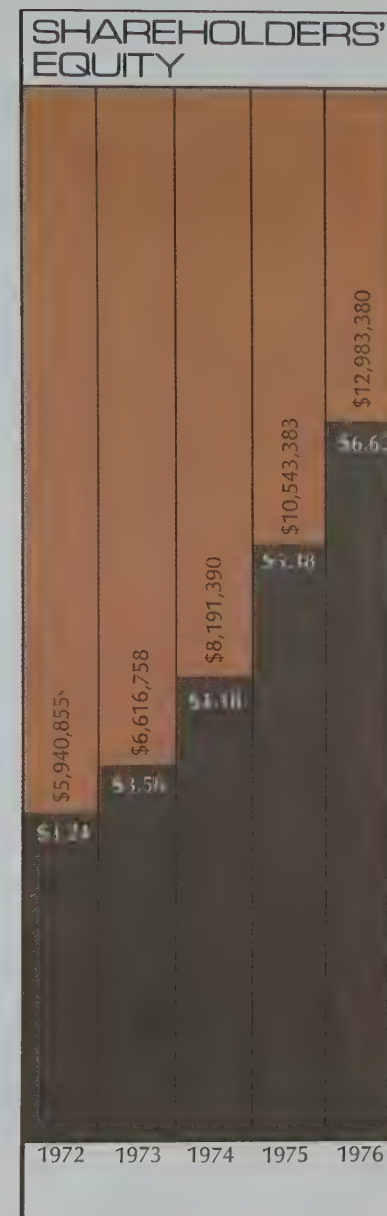
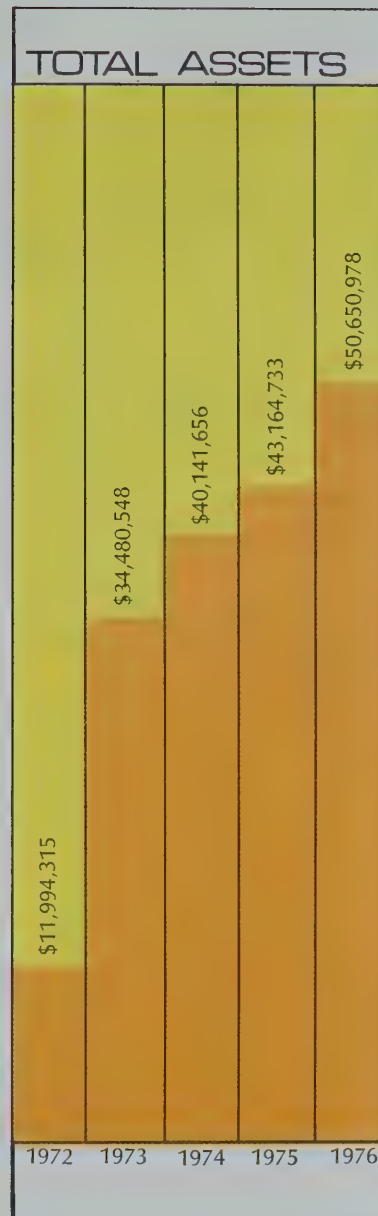
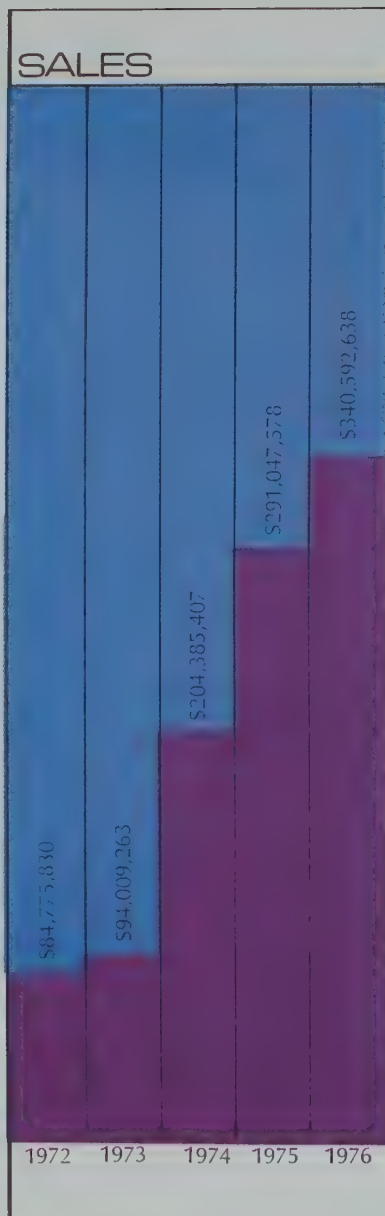
We have examined the consolidated balance sheet of Horne & Pitfield Foods Limited and its subsidiaries as at January 31, 1976 and the consolidated statements of income and retained earnings and changes in financial position for the fifty-three weeks then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 31, 1976 and the results of their operations and the changes in financial position for the fifty-three weeks then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants

EDMONTON, ALBERTA
APRIL 6, 1976

GROWTH AT A GLANCE



The 1974 Fiscal Period consisted of 43 weeks only.

FINANCIAL SUMMARY

OPERATING RESULTS

	1972	1973	1974†	1975	1976
Sales	84,775,830	94,009,263	204,385,407	291,047,578	340,592,638
Depreciation	330,513	438,935	752,974	1,095,105	1,356,441
Income before taxes	1,301,797	1,595,223	2,960,878	5,492,810	5,373,635
Percent of sales	1.54	1.70	1.45	1.89	1.58
Per share	.71	.87	1.54	2.80	2.74
Income taxes	625,000	755,000	1,550,000	2,815,000	2,610,000
Net income	676,797	840,223	1,341,127	2,586,855	2,668,960
Per share	.37	.46	.70	1.32	1.36
Cash flow	1,138,903	1,321,168	2,147,448	3,647,913	3,974,442
Per share	.62	.72	1.12	1.86	2.03
Dividends	201,617	221,526	117,495	235,062	235,063
Per share	11.0	12.0	6.0	12.0	12.0

† The 1974 fiscal period consisted of 43 weeks only.

FINANCIAL POSITION

Working capital	3,284,493	8,446,031	7,686,869	8,982,360	8,411,872
Ratio	1.63:1	1.54:1	1.37:1	1.41:1	1.31:1
Total assets	11,994,315	34,480,548	40,141,656	43,164,733	50,650,978
Shareholders	3,399	1,162	815	782	755
Shares issued	1,833,154	1,858,254	1,958,754	1,958,854	1,961,354
Shareholders' equity	5,940,855	6,616,758	8,191,390	10,543,383	12,983,380
Equity per share	3.24	3.56	4.18	5.38	6.62

OTHER INFORMATION

Canadian:					
Warehouses	9	9	9	9	9
Cash & Carry warehouses	6	6	6	6	6
IGA stores	81	80	76	73	71
MM stores	298	289	270	287	252
Mayfair stores	13	23	27	33	34
Red Rooster stores	2	6	11	17	23
Triple S stores	21	16	13	14	12

U.S.A.:					
Grocery warehouses	—	5	5	6	6
Frozen food warehouses	—	3	3	3	3
Cash & Carry warehouses	—	7	7	7	8

HORNE & PITFIELD FOODS LIMITED

DIRECTORS

EDWARD E. BISHOP, Q.C.
BRYAN A. ELLIS
DAVID A. GOLDEN
CARL R. GOSLOVICH

BERTRAM LOEB
DAVID B. LOEB
H. EDWARD MOORE
KENNETH W. QUINN, C.A.

OFFICERS

BERTRAM LOEB, Chairman of the Board
KENNETH W. QUINN, C.A., President and Chief Executive Officer
A. NELSON GAHN, Vice-President, Canadian Wholesale Operations
DAVID W. MELLOR, C.A., Vice-President and Treasurer

RONALD J. GARLAND, Vice-President,
Administration and Personnel
EDWARD E. BISHOP, Q.C., Secretary
THOMAS JACKSON, Assistant Secretary

CANADIAN DIVISION

NORMAN R. MAYDONIK, Director, Merchandising	ROBERT S. McKEE, Director, Meat Operations	DENNIS BRENNEN, Assistant Manager, Calgary Branch	WAYNE A. WAGNER, Manager, Red Deer Branch
MELVIN G. LINDGREN, Director, IGA Stores	G. DENNIS McNAMARA, Director, MM Stores	JOHN M. FREEMAN, Manager, Edmonton Branch	WILLIAM WESKO, Manager, St. Paul Branch
WESLEY L. ARMENEAU, Director, Branch Operations	FREDERICK KNOPKE, Director, Data Processing	JOHN ANTON, Manager, Peace River Branch	M. CARL COOKE, Manager, Grande Prairie Branch
THOMAS G. VAN DER WEIDE, Director, Corporate Stores	MORLEY G. STANWAY, C.A., Comptroller	JULES R. WIEBE, Manager, Medicine Hat Branch	ROBERT A. DUNN, Manager, C. W. Boon & Co. Ltd.
DARRYL H. SMITH, Director, Advertising	FREDERICK H. HARVEY, Manager, Calgary Branch	LAWRENCE BROWN, Manager, Dawson Creek Branch	

USA DIVISION

H. EDWARD MOORE, President	ARTHUR W. GRIX, Senior Vice-President and General Manager, Sacramento	WALTER J. AMADOR, Vice-President and General Manager, Redding	HARRY MARKOWITZ JR., Vice-President and Advertising Manager
CARL R. GOSLOVICH, Executive Vice-President and General Manager, Santa Rosa	WILLIAM H. BIRTCL, SR., Vice-President and General Manager, Santa Clara	JOHN C. MOORE, Vice-President and General Manager, Glendale and Fresno, Frozen Foods	CHARLES E. DeBERRY, C.P.A., Vice-President and Assistant Secretary
RAYMOND V. FERRUCCI, Senior Vice-President and General Manager, Modesto	JOHN "DEL" ELAM, Vice-President and General Manager, Eureka	DAVID L. STAFFORD, Vice-President and General Manager, Fresno, Grocery	HARRIET OROZ, Treasurer MARY T. HOPKINS, Secretary GLENN A. WEDIN, Assistant Secretary

BANKERS The Toronto-Dominion Bank: The Bank of California

REGISTRARS AND TRANSFER AGENTS Montreal Trust Company

AUDITORS Price Waterhouse & Co.

LISTED ON Toronto Stock Exchange



HORNE & PITFIELD FOODS LIMITED
14550 - 112 Avenue, Edmonton, Alberta T5M 2V1